

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
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FM AMCONSUL MONTREAL  
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INFO AMEMBASSY OTTAWA  
AMCONSUL QUEBEC

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E.O. 11652: NA  
TAGS: ECON, EFIN, CA  
SUBJECT: HYDRO QUEBEC PASSES FIRST US MARKET TEST

SUMMARY: HYDRO QUEBEC'S FIRST PUBLIC ISSUE IN US SINCE ELECTION  
OF PQ WAS SUCCESS, WITH BOOKS OVERSUBSCRIBED AND YIELD LESS THAN  
HAD BEEN ANTICIPATED. ISSUE, FOR \$100 MILLION, WAS SMALL,  
HOWEVER, AND LARGE INSTITUTIONS STILL APPEAR TO VIEW QUEBEC  
INVESTMENTS WITH CAUTION. END SUMMARY.

1. HYDRO QUEBEC HAS COMPLETED FIRST PUBLIC ISSUE, FOR \$100 MILLION,  
IN US SINCE ELECTION OF PARTI QUEBECOIS IN NOVEMBER 1976. THE  
30-YEAR ISSUE, CARRYING 10 PERCENT COUPON, WAS PRICED AT 99.75 TO  
YIELD 10.03. ISSUE WENT EXTREMELY WELL WITH ORDERS ON BOOK  
TOTTALLING \$175 MILLION, ACCORDING TO HYDRO SOURCE. PRICING WAS A  
LITTLE BETTER THAN ANTICIPATED, AS YIELD HAD BEEN EXPECTED TO BE  
SOMEWHAT HIGHER.

2. HYDRO QUEBEC OFFICIALS ARE HAPPY WITH OUTCOME, AS RECEPTION  
LESSENED CONCERNS ABOUT HYDRO'S ABILITY TO RETURN TO NEW YORK  
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MARKET, AND REDUCED SPREAD WITH ONTARIO ISSUES FROM FORMER  
70 BASIS POINTS TO AROUND 56 BASIS POINTS. ISSUE WAS  
AGGRESSIVELY MARKETING BY HYDRO QUEBEC ITSELF, WHICH HAD TOP  
FINANCIAL OFFICERS COVER US FROM WEST TO EAST COAST DURING  
TWO WEEKS PRECEDING ISSUE TO SPREAD HYDRO QUEBEC SUCCESS  
STORY. HYDRO SAYS THAT ISSUE WAS ALSO SUCCESSFUL IN STIMU-  
LATING INTEREST IN SECONDARY MARKET FOR HYDRO ISSUES, WITH

PRICES HAVING FIRMED.

3. HYDRO NOW HAS DONE SUFFICIENT FINANCING TO COVER ITS REQUIREMENTS FOR REMAINDER OF THIS YEAR AND HALF OF NEXT. COMPANY NEVERTHELESS HAS PLANS FOR ADDITIONAL ISSUES IN COMING MONTHS AS IT WOULD PREFER TO AVOID ANY DRAWDOWNS OF ITS CREDITS FOR \$500 MILLION IN US AND \$500 MILLION IN CANADA. WITH REGARD TO US MARKET, HYDRO DOES NOT INTEND TO TAP US PRIVATE MARKET UNTIL 1980, WHEN IT IS THOUGHT BIG PRIVATE BUYERS SUCH AS PRUDENTIAL AND METROPOLITAN INSURANCE COMPANIES WILL AGAIN BE READY. (SEE COMMENT FOR DIFFERENT VIEWPOINT.) CHIEF FINANCIAL OFFICER FOR HYDRO TOLD CONSULATE THAT HYDRO WOULD, HOWEVER, LIKE TO TRY TWO PUBLIC ISSUES IN US NEXT YEAR.

4. HYDRO OFFICIALS BELIEVE THAT HYDRO'S SALE OF POWER TO US HAS AIDED RECEPTIVITY IN US MARKET AND THAT PUBLIC PERCEPTION OF HYDRO WILL IMPROVE AS EXPERTS OF POWER INCREASE. PRESENT EXPORTS TO NEW YORK AMOUNT TO ABOUT 1.5 PERCENT OF HYDRO'S TOTAL OUTPUT. APPROVED PASNY CONTRACT WILL BRING TOTAL TO ABOUT 5 PERCENT, WITH ADDITIONAL CONTRACT THAT HYDRO EXPECTS TO BE APPROVED IN SEPTEMBER BRINGING TOTAL DURING WINTER MONTHS TO NEARLY 10 PERCENT. PROVINCIAL GOVERNMENT IS SAID TO BE SOUNDLY BEHIND INCREASE IN POWER EXPORTS TO US. ACCORDING TO HYDRO QUEBEC, RELATIONS WITH QUEBEC'S MINISTRY OF ENERGY HAVE NEVER BEEN BETTER.  
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5. COMMENT: WHILE HYDRO'S FIRST PUBLIC US OFFERING SINCE PQ ELECTION WAS SUCCESS, IT SHOULD NOT BE INTERPRETED AS SIGN THAT US MARKET IS READY TO FORGET ABOUT QUEBEC POLITICAL SITUATION. CHECK WITH SEVERAL OF THE LARGE PRIVATE HOLDERS OF QUEBEC ISSUES REVEALS THAT ATTITUDE OF CAUTION AND SKEPTICISM STILL PREVAILS. RELATIVELY SMALL SIZE OF ISSUE INDICATES THAT HYDRO STILL HAS HANDICAP IN US MARKET. MANAGER OF PORTFOLIO OF LARGE INSURANCE COMPANY WITH HOLDINGS OF HYDRO QUEBEC SAID THAT IN ABSENCE OF POLITICAL CONCERNS HYDRO WOULD HAVE BEEN ABLE TO DO ISSUE THREE TIMES AS LARGE AT LOWER COST. OTHERS SUGGESTED THAT REVIEW OF BUYERS LIST WOULD INDICATE THAT PURCHASERS WERE SMALL INSTITUTIONS, WHILE MORE SOPHISTICATED LARGE PENSION FUNDS AND INSURANCE COMPANIES, WHO WOULD HAVE TO JUSTIFY PURCHASES TO AN INFORMED BOARD, STAYED AWAY. (AS FAR AS WE CAN TELL, ONLY MAJOR INSURANCE COMPANY TO BUY NEW ISSUE WAS AETNA.)

6. THERE IS ALSO SOME CONCERN OVER FINANCING ACTIVITIES OF HYDRO DURING LAST TWO YEARS. MATURITIES HAVE BEEN SIGNIFICANTLY SHORTENED WHILE OBLIGATIONS IN STRONG CURRENCIES SUCH AS DEUTSCHEMARK, SWISS FRANC, AND YEN HAVE BEEN SUBSTANTIALLY

INCREASED. WHEREAS HYDRO HAD PREVIOUSLY FOLLOWED POLICY OF NEVER REFINANCING AFTER IT HAD RAISED MONEY FOR A PROJECT, IT WILL NOW FACE DOUBLE BURDEN OF REFINANCING AND RAISING MONEY FOR NEW PROJECTS AT SAME TIME. FURTHER DECLINE IN CANADIAN DOLLAR VIS A VIS STRONG CURRENCIES WILL MAKE BURDEN EVEN MORE ONEROUS.

7. IN SUM, WHILE BIG MONEY BOYS ARE HAPPY HYDRO DID AS WELL AS IT DID, THEY DON'T YET APPEAR READY TO ADD SUBSTANTIALLY TO THEIR HOLDINGS OF HYDRO QUEBEC SECURITIES.  
HARPER

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